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As Social Security turns 50, the programs that supplement it also play an increasingly important role in delivering retirement income.

Complementing Social Security: Pensions, Earnings, Welfare, and Wealth

As Social Security celebrates its 50th anniversary, it is providing benefits to over 36 million retired and disabled workers, their survivors, and dependents. Employer-provided pensions, earnings, welfare programs, and income from assets and savings supplement these benefits.

This *Issue Brief* explores how Social Security and its complements, especially employer-provided pensions, exert an increasingly significant impact on the nation's retirement income system.

The importance of Social Security and employer-sponsored pensions has grown, while that of welfare and earnings has diminished. In 1940, when Social Security issued its first benefit check, more than 2 million of 9 million individuals age 65 and over were still working. Another 2 million were receiving welfare, and relatively few retirees had employer-sponsored pensions.

According to newly released findings of the Social Security Administration, 85 percent of all married men and their wives and 45 percent of all unmarried men and women (including those who are divorced and widowed) had retirement incomes of $10,000 or more in 1982. Married men and their wives received median annual private pension benefits of $4,700 as a couple and unmarried individuals received $2,417. These same groups received median Social Security benefits of $7,750 and $5,050 per year, respectively.

The legislative support of the private-sector system in conjunction with a favorable economic environment has successfully led to the expansion of private pensions. Employer-sponsored pension plans serve 15 million beneficiaries through retirement and disability provisions and as dependents and survivors. Also, men and women entitled to higher Social Security benefits are more likely to be receiving employer-provided pensions.

The growth of the nation's retirement income system has given most elderly the opportunity to enjoy retirement rather than extended work. Continued analysis and adjustment will be necessary to ensure that benefits are not lost in attempts to provide for the needs of a changing work force.

Introduction

Social Security celebrates its fiftieth anniversary in 1985. Under the original 1935 legislation, the system provided retirement benefits for private-sector wage and salary workers, financed through a payroll tax instituted in 1937. Benefits were to be paid to retired workers only. In 1939, the system was amended to include dependents and survivors of beneficiaries. Benefits were weighted toward low-wage earners and first made payable in 1940. Since that time, coverage has expanded, payroll tax rates have increased, and benefit amounts have grown. Additional programs were also added under the umbrella of Social Security. The Social Security trust funds now include Old Age and Survivors Insurance (OASI), Disability Insurance (DI) (enacted in 1956), and Medicare (enacted in 1965).[1]

OASI provides the foundation of retirement income for most of the nation's retired workers, as well as benefits for spouses and children of retirees and workers who die before retirement age. Social Security benefits are complemented by other components of the retirement income system, including employer-sponsored pensions, earnings, welfare programs, and income from assets and savings. The role of these components has changed over the 50 years since Social Security was enacted.

In 1940, when Ida M. Fuller received the first retirement benefit check from Social Security,[2] more than 2 million of 9 million individuals age 65 and over were still working (table 1). Another 2 million were receiving public assistance. Relatively few retirees had employer-sponsored pensions. By the 1980s, the building blocks of the retirement income system remained but their relative importance had changed substantially. As of 1983, OASI provided benefits to more than 32 million retired workers and their dependents and survivors. Employer-sponsored pension plans (including private, state, local, civil service retirement, and railroad retirement) serve 15 million beneficiaries. These include retirees, their dependents and survivors, and the disabled (which compose only a small portion of the total). The importance of Social Security and employer-sponsored pensions has grown while that of welfare and earnings has diminished.

The programs that complement Social Security have played an increasingly important role in the retirement income system. According to the recently released Social Security Administration's 1982 survey of new beneficiaries (the New Beneficiary Survey), many retirees now have other sources of income in addition to their Social Security benefits.[3] As a consequence, 85 percent of all married men and their wives[4] and 45 percent of all unmarried men and women[5] (including those who are divorced and widowed) had total retirement incomes of $10,000 or more (table 2) in 1982.

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When Social Security beneficiaries are divided into four groups according to the size of annual Social Security benefits received (quartiles), many new retirees in each quartile (low, second, third, high) had total annual retirement incomes of $10,000 or more in 1982 (table 2). For example, 72 percent of married men and their wives in the lowest quartile (ranging from $1,628 to $3,270) had family incomes of $10,000 or more. Only in the second quartile did the fraction dip below this level (to 54 percent). In total, 85 percent of married couples received $10,000 or more from sources of income other than Social Security. Unmarried men and women receiving Social Security fared less well. Yet, even among the unmarried, about one-fourth in the lowest Social Security quartile had retirement incomes of $10,000 or more.

[1] For a fuller description of the history of the Social Security system, see Sylvester J. Schieber, *Social Security: Perspectives on Preserving the System* (Washington, DC: Employee Benefit Research Institute, 1982), chap. 1.

[2] See W. Andrew Achenbaum, *Old Age in the New Land* (Baltimore, MD: Johns Hopkins University Press, 1978), p. 126.

[3] See Christine Irick, U.S. Social Security Administration, "Income of New Retired Workers by Social Security Benefit Levels: Findings from the New Beneficiary Survey," *Social Security Bulletin*, vol. 48 (Washington, DC: U.S. Government Printing Office, May 1985); and Linda Drazga Maxfield and Virginia P. Reno, U.S. Social Security Administration, "Distribution of Income Sources of Recent Retirees: Findings from the New Beneficiary Survey," *Social Security Bulletin*, vol. 48 (Washington, DC: U.S. Government Printing Office, January 1985). Statistics based on the Social Security Administration's new beneficiary survey come from one of these articles unless otherwise noted.

[4] The 1982 Social Security Administration survey includes both married men and married women who were entitled to retired worker benefits. Findings for married men and their wives may be more representative since they include both one-earner and two-earner couples. Married women retirees and their husbands exclude couples in which the wife is only entitled to Social Security benefits as a spouse. In terms of family income and family benefit recipiency, results are only reported for married men and their wives. In terms of own income and own benefit recipiency, results are reported for married women and married men.

[5] Findings for unmarried men and women are not always reported separately by sex when income or benefit receipt is similar.

Table 1
The Retirement Income System: Five Decades of Growth (in millions)

	Population 65 & Over	Workers 65 & Over	Social Security Beneficiaries (OASI)[a]	Beneficiaries of Employer-Sponsored Pensions (Retirees, Survivors, & Disabled) Total[b]	Private	State & Local	CSRS	RR	Welfare Recipients (OAA/SSI)
1940	9.0	2.1	0.2	0.6	0.2	0.2	0.1	0.2	2.1
1945	10.5	3.0	1.3	0.8	0.3	0.2	0.1	0.2	2.1
1950	12.4	3.0	3.5	1.5	0.5	0.3	0.2	0.5	2.8
1955	14.5	3.3	8.0	2.4	1.0	0.4	0.3	0.7	2.5
1960	16.7	3.2	14.2	2.4	1.8	0.7	0.5	0.9	2.3
1965	18.5	3.1	19.1	3.8	2.8	0.9	0.7	1.0	2.1
1970	20.1	3.2	23.6	8.2	4.7	1.3	1.0	1.1	2.1
1975	25.7[c]	2.9[e]	27.7	11.2	7.1[f]	1.7[f]	1.4[f]	1.0[f]	2.3[h]
1980	28.7[c]	3.1[e]	30.9	13.5	8.2[g]	2.6[f]	1.7[f]	1.0[f]	1.8[h]
1983	27.4[d]	3.0[e]	32.3	14.7	8.7[g]	3.1[f]	1.9[f]	1.0[f]	1.5[h]

Source: Unless otherwise noted, statistics for 1940–1970 are from the U.S. Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970* (Washington, DC: U.S. Government Printing Office, 1975).

[a] U.S. Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement, 1983*. Table 62—OASDI Current Pay Benefits: Number and Amount by Type of Benefit, 1940–83 (Washington, DC: U.S. Government Printing Office, 1983), p. 136.

[b] Double counting may result because some people may have coverage from more than one pension plan.

[c] *Economic Report of the President*, Table B–28—Population by Age Groups, 1929–82 (Washington, DC: U.S. Government Printing Office, 1983), p. 195.

[d] U.S. Bureau of the Census, *Statistical Abstract of the United States 1985*. Table 30—Resident Population by Age, Sex, and Race: 1970 to 1983 (Washington, DC: U.S. Government Printing Office, 1985), p. 28.

[e] U.S. Bureau of the Census, *Statistical Abstract of the United States 1985*. Table 655—Civilian Labor Force and Participation Rates by Race, Sex, and Age, 1970 to 1983, and Projections, 1990 and 1995 (Washington, DC: U.S. Government Printing Office, 1985), p. 392.

[f] American Council of Life Insurance, *Pension Facts 1984/1985* (Washington, DC: American Council of Life Insurance, 1985).

[g] EBRI estimates based on 1979 unpublished U.S. Department of Labor tabulations.

[h] U.S. Bureau of the Census, *Statistical Abstract of the U.S. 1985*. Table 638—Recipients of and Average Monthly Cash Payments Under SSI and Public Assistance: 1970 to 1983 (Washington, DC: U.S. Government Printing Office, 1985), p. 379.

◆ Employer-Sponsored Pensions

When the Social Security Act was passed in 1935, approximately 750 private employer-sponsored pension plans were in operation.[6] The birth of the modern private pension plan in the United States is frequently dated to the establishment of the American Express Company plan in 1875.[7] Other early plans were found in the railroad, banking, and public utility industries. In 1920, the first retirement legislation for federal employees was enacted after 25 years of public discussion.[8] During the 1920s, many funded state and local plans began to be established, although states such as New York, New Jersey, and Massachusetts had plans somewhat earlier.[9] The railroad industry's financial problems during the 1930s led to the federal administration of the Railroad Retirement System in 1935.[10]

When Social Security benefits were first paid in 1940, relatively few individuals received employer-sponsored pensions in retirement. Pensions provided benefits to at most 600,000 former employees, their dependents and survivors (table 1). Private employer-sponsored pensions were received by as

[6] See Schieber, p. 45.

[7] See Joseph J. Melone and Everett T. Allen, Jr., *Pension Planning* (Homewood, IL: Richard D. Irwin, Inc., 1972), p. 1.

[8] See William Graebner, *A History of Retirement* (New Haven, CT: Yale University Press, 1980), p.57.

[9] See Robert Tilove, *Public Employee Pension Funds* (New York: Columbia University Press, 1976), p. 6.

[10] See report from the Office of the Assistant Secretary for Economic Policy, U.S. Treasury Department, "Railroad Retirement and Unemployment Systems: Historical and Future Impacts on Commuter and Freight Railroads" (Washington, DC: U.S. Government Printing Office, 1984), p. 29.

many beneficiaries as were state and local government pensions, despite the preponderance of employees leaving the private sector. Nonetheless, in 1940, more retirees received benefits from employer-sponsored pensions than from the newly established Social Security system.

By 1983, the employer-sponsored system expanded considerably, providing benefits to nearly 15 million retirees, survivors, and disabled beneficiaries. Of course, by that time Social Security had matured as well, with OASI benefits granted to about 32 million beneficiaries. The growth of employer-sponsored pensions and Social Security over the past five decades has changed the profile of retirement in America significantly. The growth of employer-sponsored programs, particularly among private-sector employers, was aided by favorable postwar economic conditions and by legislative encouragement.

◆ Private Employer-Sponsored Pensions

The legislative history of employer-sponsored pensions in the private sector spans seven decades.[11] The Revenue Act of 1921 exempted net interest income of stock bonus and profit sharing plans from current taxation. This was extended to pension trusts through the 1926 Revenue Act (although that treatment had been accorded earlier through an administrative ruling), and funding of prior service credits was also permitted. The 1938 Revenue Act required that a retirement trust be for the exclusive benefit of the plan participants. This series of laws provided half of the modern framework for the establishment of pension plans prior to the Employee Retirement Income Security Act of 1974 (ERISA).

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Eighty-five percent of all married men and their wives and 45 percent of all unmarried men and women had total retirement incomes of $10,000 or more in 1982.

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During World War II, increasing corporate tax rates in conjunction with wage freezes encouraged the growth of employer-sponsored plans. The Revenue Act of 1942 aimed to ensure that plans were broadly based and did not discriminate in favor of officers, shareholders, and other highly compensated employees. Pensions were given another boost in 1948 when the National Labor Relations Board ruled that pensions were within the realm of collective bargaining.

[11] For a fuller discussion of the legislative history of the tax treatment of private-sector employer-sponsored pensions, see Sophie M. Korczyk, *Retirement Security and Tax Policy* (Washington, DC: Employee Benefit Research Institute, 1984), chap. 2. Also, see Schieber, chap. 2, for other developments in private pension plans.

Table 2
Total Annualized Income by Social Security Benefit Quartiles and Marital Status

Income[a]	Social Security Benefit Quartiles (in percent)[b] Total	Low	Second	Third	High
	Married Men and Their Wives				
Less than $10,000	15	28	36	16	3
$10,000 and over	85	72	64	84	97
	Unmarried Men and Women				
Less than $10,000	55	76	74	46	11
$10,000 and over	45	24	26	54	89

Source: Based on Christine Irick, "Income of New Retired Workers by Social Security Benefit Levels: Findings from the New Beneficiary Survey," *Social Security Bulletin*, vol. 48, no. 5 (Washington, DC: U.S. Government Printing Office, 1985), Table 8.

[a] Annualized retirement income, including income of spouse, based on income received from October to December 1982.

[b] Social Security primary insurance amount (PIA) for June 1981—the basic benefit for a retired worker not including benefits for survivors and dependents. Low-quartile benefits in July 1981 ranged from $1,628 to $3,270 annually; second-quartile benefits from $3,271 to $5,531; third-quartile benefits from $5,532 to $7,288; and high-quartile benefits from $7,289 to $9,996.

In 1958, the Welfare and Pension Plans Disclosure Act sought to protect participants from fiduciary abuses through mandatory plan-disclosure requirements. Modern protection for participants in private-sector plans really began in 1974 with ERISA, which established minimum standards for plan participation and vesting. ERISA also provided fiduciary and funding guidelines to promote plan solvency and established the Pension Benefit Guaranty Corporation (PBGC) as an insurance system for retirement benefits.

Since 1974, a number of amendments to ERISA have affected employer-sponsored pension plans. The 1980 Multiemployer Pension Plan Amendments Act changed the relationship between multiemployer plans and the PBGC. The Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, and the Deficit Reduction Act of 1984 raised the contribution limits for plans established by unincorporated businesses and lowered those established for corporate plans. In 1984, the Retirement Equity Act lowered ERISA minimum-age requirements, liberalized break-in-service provisions, and changed the survivor and young survivor provisions of plans.[12] Changes in pension law still being proposed range from the Reagan administration's tax reform proposal to the retirement provisions of the Economic Equity Act[13] sponsored as S.1169 by Sen. David Durenberger (R-MN) and as H.R. 2472 by Rep. Patricia Schroeder (D-CO).

The tax treatment of employer-sponsored plans is recognized to be the single most important determinant of plan growth.[14] The number of pension plans has multiplied 1,000-fold since 1940. Nondiscrimination provisions ensure that plans broadly cover the income spectrum, and ERISA participation and vesting provisions ensure that more retirees receive benefits at retirement. Benefit receipt grew substantially even before ERISA as the system matured. By 1970, 4.7 million retirees, their survivors and dependents were receiving retirement benefits from private employer-sponsored plans compared to fewer than 200,000 in 1940 (table 1). Growth continued through 1983 when an estimated 8.7 million beneficiaries were receiving private employer-sponsored pensions.

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Although there is evidence that pension coverage may have stabilized and that plan formation is slowing,[15] the legislative support of the private-sector system in conjunction with a favorable economic environment has successfully led to the expansion of private pensions as a source of income in retirement. A growing proportion of retirees receive benefits from private employer-sponsored plans.

The railroad industry has the only federally administered private-sector pension plan; it is not subject to ERISA standards. The system was first instituted through the Railroad Retirement Act of 1935 after the net income of railroad companies fell by 97 percent between 1929 and 1933.[16] Railroad workers were originally excluded from Social Security coverage. Through amendments to stabilize system finances in 1973, railroad workers now have a two-tier retirement system: benefits from the first tier essentially replicate Social Security, whereas those of the second tier are roughly similar to those of an employer-sponsored plan. The system's problems in large part stem from pay-as-you-go financing. The Railroad Retirement System's financing problems were last addressed in 1983 legislation that made changes in financing, benefits, and the taxation of benefits.

The one million system beneficiaries only compose about 7 percent of all retirees receiving employer-sponsored pension benefits (table 1). This proportion can be expected to drop further as railroad workers account for a steadily declining share of the work force.

Benefits and Beneficiaries

The New Beneficiary Survey indicates that 38.3 percent of married men and their wives (as a couple) and 26.8 percent of unmarried men and women first entitled to Social Security benefits in 1981 had income from private employer-sponsored pensions. In general, private employer-sponsored pensions complement Social Security. Those entitled to higher Social Security benefits are more likely to receive pensions based on their own employment (table 3). Many plans are designed to provide more equal replacement of preretirement earnings than Social Security, which tilts benefits toward low-income workers. Reflecting their lower lifetime earnings, a greater proportion of women than men receive private employer-sponsored pensions among those with Social Security benefits in the second quartile.

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Those entitled to higher Social Security benefits are more likely to receive pensions based on their own employment.

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According to the New Beneficiary Survey, married men and their wives received median annual private pension benefits of $4,700 as a couple in 1982, and unmarried individuals received median annual private pension benefits of $2,417 in 1982.[17] By contrast, married men and their wives received

[12] See "Impact of the Retirement Equity Act," *EBRI Issue Brief* 39 (February 1985).

[13] The effect of many of these provisions are simulated in Emily S. Andrews, *The Changing Profile of Pensions in America* (Washington, DC: Employee Benefit Research Institute, forthcoming).

[14] See Korczyk, chap. 3, for a discussion of the impact of taxes on plan growth.

[15] See "New Survey Findings on Pension Coverage and Benefit Entitlement," *EBRI Issue Brief* 33 (August 1984).

[16] See Treasury Department report, "Railroad Retirement and Unemployment Systems," p. 29.

[17] Unpublished tabulations of the New Beneficiary Survey from Social Security, Office of Research Statistics and International Policy.

Table 3
Retirement Income Receipt[a] by Social Security Benefit Quartile, Sex, and Marital Status

		Social Security Benefit Quartiles (in percent)[b]			
	Total	Low	Second	Third	High
	Own Private Pension				
Married					
Men	36	2	7	39	52
Women	14	3	18	44	41
Unmarried					
Men	26	1	4	43	48
Women	27	6	21	48	48
	Own Public Pension				
Married					
Men	19	56	29	15	10
Women	11	7	13	14	26
Unmarried					
Men	17	19	17	18	13
Women	16	19	13	15	24
	Own Earnings				
Married					
Men	27	22	34	27	25
Women	19	18	21	18	22
Unmarried					
Men	22	21	25	16	26
Women	30	30	37	24	24

Source: Based on Christine Irick, "Income of New Retired Workers by Social Security Benefit Levels: Findings from the New Beneficiary Survey," *Social Security Bulletin*, vol. 48, no. 5 (Washington, DC: U.S. Government Printing Office, 1985), Tables 3 and 4.

[a] Receipt of own retirement income for October to December 1982.

[b] Social Security primary insurance amount (PIA) for June 1981—the basic benefit for a retired worker not including benefits for survivors and dependents. Low-quartile benefits in July 1981 ranged from $1,628 to $3,270 annually; second-quartile benefits from $3,271 to $5,531; third-quartile benefits from $5,532 to $7,288; and high-quartile benefits from $7,289 to $9,996.

median Social Security benefits of $7,750 annually in 1982, and unmarried beneficiaries received median benefits of $5,050 annually. Those with employer-sponsored pensions probably had slightly higher Social Security benefits than the median for all retirees. Also, recent retirees tend to receive higher pensions than those who retired earlier.

Public Employer-Sponsored Pensions

Both the federal government and the state and local governments sponsor pension plans for their employees. Public-sector pensions have not had a legislative history comparable to private pensions on the national level. Nevertheless, public plans have been influenced by these events. The original 1920 Civil Service Retirement Act was limited to permanent competitive employees in the executive branch of the federal government and to regular employees of the District of Columbia.[18] The original act contained no provisions for optional retirement, no survivor benefits, and no provision for preretirement separations from service. The original act was based entirely on employee contributions; the government did not contribute to the plan until 1928. The Social Security Act of 1935 did not include federal workers.

Not all retirees with low Social Security benefits have low incomes.

With the expansion of the private system, the federal retirement system was strengthened to include provisions such as survivor benefits. Five-year vesting was instituted in 1942. Benefits were indexed for inflation in 1962 on an annual basis, with indexing switched to two times a year in 1976. In recent years, some have felt that this has led to overly generous benefits. In 1984, the cost-of-living adjustment was again changed to an annual adjustment, and indexation for retirees under age 65 was roughly one-half of that for older retirees. The Civil Service Retirement System (CSRS) early retirement provisions have also been criticized. These were liberalized over the years so that by 1966 employees could receive an unreduced annuity at age 55 with 30 years of service.

As a result of the 1983 Social Security Amendments, new federal employees started contributing to OASI in 1984. By 1986, the CSRS must be restructured for these employees to provide both Social Security and plan benefits at retirement. Many expect private employer-sponsored plans to be a model for the new system.

State and local plans are regulated at the state and local level and have never been subject to federal regulation. Many larger governments, however, have plan standards similar to those of ERISA. Involvement at the federal level is almost

[18] See Dennis W. K. Snook, Congressional Research Service, "Civil Service Retirement Financing" in *Financing Work-Related Entitlement Programs* (Washington, DC: U.S. Government Printing Office, 1983), chap. 5.

wholly limited to those entities voluntarily participating in Social Security. In 1983, the Social Security Amendments prevented any state and local systems from opting out of Social Security, although they are still free to join the system. Because most state and local workers have Social Security coverage, plan benefits, like those of private-sector pensions, are geared to supplement Social Security.

Social Security beneficiaries who are less likely to receive an employer-sponsored pension are more likely to continue working.

Through its jurisdiction over individual income taxes, the federal government also sets conditions on the deductibility of employee contributions to deferred compensation plans established by state and local governments under section 457 of the tax code. Other efforts toward federal regulation similar to ERISA have been unsuccessful. The most recent was the proposed Public Employee Pension Plan Reporting and Accountability Act (PEPPRA), which relied on reporting and disclosure to inform participants of poor plan practices. Reps. William Clay (D-MO) and Marge Roukema (R-NJ) plan to reintroduce PEPPRA as bipartisan legislation later this year. Many feel that stronger regulatory requirements would be unconstitutional.

Benefits and Beneficiaries

Civilian beneficiaries of the CSRS, including those on retirement, survivor, and disability pensions, have grown from fewer than 100,000 recipients in 1940 to 1.9 million in 1983. Beneficiaries of state and local plans increased from fewer than 200,000 in 1940 to 3.1 million in 1983, paralleling increasing state and local government employment (table 1). Despite public system growth, the ratio of public- to private-sector beneficiaries has changed substantially since the first Social Security benefits were paid. The private-sector employer-sponsored pension system has narrowed the earlier lead in pension plan development held by the public-sector in the 1920s.

Pension recipiency among public-sector workers has continued to grow. Information on new Social Security beneficiaries indicates that 21 percent of married men and their wives, as a couple, and 17 percent of unmarried retirees received pensions from public-sector employment in 1982. Nineteen percent of married men received public-sector pensions in their own right (table 3). The majority of married men receiving the lowest Social Security benefits also received a public pension, suggesting that their employment was primarily in the public sector and not covered by the Social Security program. Only 10 percent of married men receiving high Social Security benefits have a public-sector pension.

Among married women, low Social Security benefits are less likely to signal a government career. Only 7 percent of married women with low benefits are also entitled to a public-sector pension. This percentage increases to 26 percent for those with the highest Social Security benefits. The pattern for unmarried women is similar, although 19 percent of unmarried women in the lowest benefit quartile also receive a public-sector pension. Nineteen percent of unmarried men receiving the lowest Social Security benefits receive a public employer-sponsored pension. These recipiency patterns suggest that not all retirees with low Social Security benefits have low incomes, and that public pensions are both complements to and substitutes for Social Security.

Median annual benefits for married men and their wives receiving federal pensions were $8,630 in 1982, according to the New Beneficiary Survey; state and local pensions received by couples came to $5,160 annually.[19] Pensions received by unmarried individuals were lower, at $7,500 per ~~month~~ year for federal retirees and $4,880 per ~~month~~ year for state and local retirees. Federal pensions are higher than state and local pensions because federal benefits are not designed to supplement Social Security. State and local pensions are higher than private-sector pensions because some state and local plans are also designed to provide stand-alone benefits that substitute for Social Security.

The Social Security Administration has estimated that only 65 to 70 percent of eligible elderly persons apply for SSI benefits.

Earnings of Retirees

In 1945, after the country had recovered from the decline in employment due to the Depression, 3 million of the 10.5 million persons age 65 and older continued working in paid employment (table 1). The number of workers age 65 and over had changed little by 1983, although the number of elderly had grown to 27.4 million. The trend toward retirement has been strong since the start of Social Security. In 1940, there were many more over-age-65 workers than pension recipients. In the 1980s, there are more pension beneficiaries than over-age-65 workers, although some individuals receiving pension benefits keep on working.

[19] Unpublished tabulations of the New Beneficiary Survey from Social Security, Office of Research Statistics and International Policy.

The labor force participation rate of men age 65 and over has declined considerably, from 33.1 percent in 1960 to 16.3 percent in 1984. A recent study by the Department of Labor has shown that men born in each successive year between 1903 and 1923 have had lower labor force participation rates at practically every age from 55 to 74.[20] Among men born in 1903, 11.9 percent were no longer in the labor force by age 60. Among men born 20 years later, 28.4 percent were no longer working by age 60. The average age of workers receiving Social Security benefits has declined substantially since the beginning of the program. In 1940, men were first awarded Social Security retirement benefits at an average age of 68.8.[21] By 1980, the average age of award for men had been reduced to 63.9.

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The Social Security program is probably the main reason why relatively few elderly currently rely on welfare.

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Social Security legislation has supported earlier retirement. In 1935, age 65 was chosen as the age at which old-age retirement benefits could be elected. This age was lowered to 62 for women in 1956 on the premise that wives were an average of three years younger than their husbands. Early benefit entitlement at age 62 was extended to men in 1961.

Many employer-sponsored pensions have also encouraged early retirement. According to a 1984 Bureau of Labor Statistics study of medium and large private-sector pension plans, most provide early retirement.[22] The majority of participants were covered by plans allowing early retirement at age 55 for employees with enough years of service under the plan. Some plan sponsors also include additional monthly payments to encourage early retirement, frequently supplementing pensions with additional funds until the retiree becomes eligible for Social Security.

Most economic studies on the determinants of retirement find that pension and Social Security incomes have a strong effect on the retirement decision.[23] The availability of Social Security and employer-sponsored pensions to more older workers at earlier ages must have had a strong influence on the work incentives of older workers over the past 50 years. In effect, the pension system has met its objectives by encouraging retirement.

Another incentive in favor of retirement is the Social Security earnings test. According to the 1935 legislation, Social Security benefits were to be reduced on a one-to-one basis for every dollar of retiree earnings from covered employment. This standard was changed so that by 1985 the earnings test was liberalized so that beneficiaries under age 65 would lose $1 for every $2 of earnings above $5,400, and those between ages 65 and 69 would lose $1 for every $2 over $7,320. The earnings test no longer applies to workers age 70 and older.

Despite these disincentives to work, many retirees receiving Social Security benefits are still employed, although labor force participation becomes less likely with increasing age. According to findings from the New Beneficiary Survey, 44 percent of married men and their wives had family incomes in 1982 from the earnings of either or both spouses. Both retired husbands and wives were likely to continue working. Among married men, 27 percent reported their own earnings compared to 19 percent of married women (table 3).[24] Unmarried women were more likely to continue working, with 30 percent reporting earnings. Only 21 percent of unmarried men worked.

Social Security beneficiaries who are less likely to receive an employer-sponsored pension (those in the second benefit quartile) are more likely to continue working. This held true for married men and unmarried women receiving second-quartile Social Security benefits. Married women and married men with benefits in the highest quartile are slightly more likely to have earnings. On the whole, some continued work at the onset of retirement is found, regardless of the level of Social Security benefits.

Median annual earnings for unmarried men and women at $4,700 were within the range of the exempt amount under the Social Security earnings test ($4,200 per year for those under age 65 and $6,000 per year for those age 65-69 in

[20] See Phillip L. Rones, U.S. Bureau of Labor Statistics, "Using the CPS to tract retirement trends among older men" in *Monthly Labor Review* (Washington, DC: U.S. Government Printing Office, 1985), pp. 46–49.

[21] See U.S. Social Security Administration, *Social Security Bulletin: Annual Statistical Supplement* (Washington, DC: U.S. Government Printing Office, 1983), p. 106.

[22] See U.S. Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1984* (Washington, DC: U.S. Government Printing Office, 1985).

[23] For example, see Alan L. Gustman and Thomas L. Steinmeier, "Partial Retirement and the Analysis of Retirement Behavior" in *Industrial and Labor Relations Review*, vol. 37, no. 3 (Ithaca, NY: Cornell University Press, 1984). Also see Gary S. Fields and Olivia S. Mitchell, *Retirement, Pensions and Social Security* (Cambridge, MA: The MIT Press, 1984).

[24] Wives of new beneficiaries were somewhat more likely than married women beneficiaries to report earnings probably because many had not yet reached retirement age.

1982). Median earnings of married men and their wives, at an annual rate of $12,648, were highest when both husband and wife worked. For couples in which only the husband worked, earnings were $5,106 annually, also in the range of the earnings-test cutoff.

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Some form of asset income was received by 84 percent of all married men and their wives and 69 percent of unmarried individuals in 1982.

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Recent legislative incentives have sought to discourage the trend toward earlier retirement, although they have not made measurable inroads on the population's retirement behavior. The 1978 amendments to the Age Discrimination in Employment Act (ADEA) raised the mandatory retirement age for private-sector employers from age 65 to age 70. Mandatory retirement in the federal government was abolished. Recently, the Equal Employment Opportunity Commission, after assuming jurisdiction of the ADEA from the Department of Labor, proposed regulations requiring pension plans to continue to accrue benefits for workers age 65 and over.[25] Similar legislation (H.R. 2712) was introduced by Mario Biaggi (D-NY) in mid-June.

The 1983 Social Security Amendments also included provisions to raise the age at which Social Security beneficiaries are granted full retirement benefits from 65 to 67, in two-month increments, by the time the baby boom reaches retirement in 2022. The early retirement benefit reduction, payable at age 62, will be gradually increased from its current 20 percent to 30 percent in 2022. Although the earnings test was not abolished by the 1983 amendments, considerable discussion was generated toward that end. The amendments changed the reduction factor from $1 for every $2 of earnings to $1 for every $3 of earnings above the exempt amount for those who reach age 65 in 1990. Studies disagree about the magnitude of the effect of changes in the earnings test and the retirement age. Nevertheless, if public policymakers and employers both see the need to retain older workers when the baby boom ages, the retirement income system mix may again shift in favor of earnings in the coming decades.

◆ Welfare

In 1940, earnings and welfare were sources of retirement income for an equal number of elderly (table 1). Although the number of individuals receiving earnings has remained fairly stable since 1940, the number of welfare beneficiaries has dropped steadily. For many years, public assistance payments were more prevalent than employer-sponsored pensions, but the trend reversed in 1960. In 1940, 2.1 million persons received public old-age assistance compared to 1.5 million elderly who received Supplemental Security Income (SSI) in 1983. Between 1923 and 1929, the majority of states enacted old-age public assistance legislation.[26] At that time, surveys indicated that one-third to one-half of those over age 65 depended on others for all or part of their support. These programs frequently had residency requirements and family responsibility clauses, requiring support from adult children, in addition to property and income tests. In Massachusetts, children and grandchildren had to file financial statements.

In 1935, the Old Age Assistance (OAA) program was enacted as part of the Social Security Act. It provided grants to states for old-age assistance on a matching basis. Federal eligibility standards required assistance to persons age 65 who met minimum residence requirements. By 1937, 40 states were part of the program.[27] Family responsibility clauses remained a means to keep assistance payments down.

In 1972, the SSI program was enacted, replacing OAA and other federal programs providing the states grants-in-aid for the blind and disabled. SSI was intended to provide a minimum nationwide benefit standard, although states voluntarily could provide greater benefit amounts. SSI eligibility is determined by federally uniform income and asset tests, disregarding specified amounts of income and the value of housing and automobiles. Although benefit payments are reduced for participants living in someone else's household, the income and assets of adult children and grandchildren are not counted to determine SSI eligibility.

The chief result of the SSI program was probably to increase benefits to recipients in states providing the lowest benefits under OAA.[28] The number of elderly receiving SSI since 1974 has been declining. Part of the decrease may be misleading since the program does not recategorize blind and disabled recipients as aged once they reach age 65. EBRI estimates for 1979 indicate that when elderly blind and disabled SSI recipients are combined with old-age recipients,

[25] See "Pension Accruals for Older Workers," *EBRI Issue Brief* 35 (October 1984) for a discussion of post-65 accruals.

[26] See a discussion of welfare before Social Security in Jill S. Quadagno, "From Poor Laws to Pensions: The Evolution of Economic Support for the Aged in England and America" in *Milbank Memorial Fund Quarterly/Health and Society*, vol. 62, no. 3 (Milbank Memorial Fund and Massachusetts Institute of Technology), pp. 417-446.

[27] *Ibid.*, p. 439.

[28] Schieber, p. 72.

the total number of persons over 65 years under SSI roughly equals the figures for 1974.[29]

Low SSI enrollment among the aged may also stem from low participation. The Social Security Administration has estimated that only 65 to 70 percent of eligible elderly persons apply for SSI benefits.[30] This may result from fears about the stigma of welfare or because if those eligible did apply, they would only receive small additional payments.

The increase in the Social Security retirement age will eventually require changes in incentives provided by employer-sponsored plans.

Improvements in OASI benefits over the past 10 years provide a further explanation for declining SSI participation. For many, SSI fills the gap between the SSI income standards and benefits received from OASI. According to the Social Security Administration, only 2 percent of married men and their wives and 7 percent of unmarried men and women first receiving Social Security payments in 1982 had some form of public assistance. Of those with the lowest Social Security benefits, 5 percent of married men and 1 percent of married women received cash assistance. Welfare was more prevalent among unmarried men and women, with 15 percent of the men and 9 percent of women receiving the lowest Social Security benefits also receiving welfare benefits.

Other public assistance, such as food stamps and public housing or rent subsidies, were also more likely to be received by those with Social Security benefits in the lowest quartile. At least one type of welfare benefit was used by 11 percent of married men and 5 percent of married women. Unmarried beneficiaries were more likely to receive noncash benefits with assistance going to 20 percent of the men and 22 percent of the women. Low Social Security benefits signal many things: some beneficiaries have public pensions; others are nonworking spouses; many others are in need of welfare.

[29] See the Employee Benefit Research Institute, *Retirement Income Opportunity: Income Level & Adequacy* (Washington, DC: Employee Benefit Research Institute, 1982), pp. 23–24.

[30] See Linda Drazga, Melinda Upp, and Virginia Reno, U.S. Social Security Administration, "Low-Income Aged: Eligibility and Participation in SSI" in *Social Security Bulletin*, vol. 45, no. 5 (Washington, DC: U.S. Government Printing Office, 1982), pp. 28–35.

Despite provisos regarding SSI participation, the trend away from welfare is striking. Although employer-sponsored pensions, favorable income tax treatment, and Social Security can probably be credited with improving the overall income distribution of the elderly, the Social Security program is probably the main reason why relatively few elderly currently rely on welfare.

Wealth

When Social Security was inaugurated, individual savings were expected to become an important source of retirement income. At that time, however, the Depression wiped out the limited resources that many older workers had accumulated.[31] Until recently, little legislation was passed that specifically encouraged the accumulation of assets for retirement, although the deductibility of home mortgage interest payments has contributed to increased homeownership. After World War II, homeownership became much more prevalent, primarily as a result of increasing real income. Only 44 percent of all housing in use was owner-occupied in 1940, compared to 65 percent in 1983.[32] According to the Federal Reserve Board's Survey of Consumer Finances, 70 percent of elderly families had home equity in 1983.[33]

Legislation in the 1960s and 1970s sought to encourage other types of saving for retirement. Through the Self-Employed Individuals Tax Retirement Act of 1962, Keogh plans were instituted to help unincorporated small business owners, farmers, those in professional practice, and their employees plan for retirement. Throughout the 1970s, limits on Keogh plan contributions have been raised gradually so that these plans are now essentially on a par with corporate pension plans. Nevertheless, less than 5 percent of unincorporated entrepreneurs had established Keogh plans in 1983.[34] The self-employed appear to prefer investing directly in their own businesses rather than diverting resources to a pension plan.

In 1974, individual retirement accounts (IRAs) were established under ERISA to improve the retirement of workers not covered by an employer-sponsored pension plan. The 1981 Economic Recovery Tax Act (ERTA) extended IRA participation to virtually all workers. Fifteen million of the 88 mil-

[31] Schieber, p. 13.

[32] See U.S. Bureau of the Census, *Statistical Abstract of the United States 1985*, 105th ed. (Washington, DC: U.S. Government Printing Office, 1984) Table 1315, p. 735.

[33] Robert B. Avery et al., U.S. Dept. of Health and Human Services, "Survey of Consumer Finances, 1983," in *Federal Reserve Bulletin* (Washington, DC: U.S. Government Printing Office, 1984), p. 683.

[34] See Andrews.

lion nonagricultural wage and salary workers reported they had IRAs in 1982—a usage rate of 17 percent.[35] The rate among workers without pension coverage was somewhat lower.

Deferred compensation plans under section 401(k) of the Internal Revenue Code have also expanded since the Internal Revenue Service issued preliminary regulations in the early 1980s. These programs are also called cash or deferred compensation arrangements because they permit employees to earmark voluntary tax-deferred contributions to the plan in lieu of salary. Thirty-nine percent of eligible employees nationwide contributed to such plans in 1983.[36] The future of IRAs and 401(k) plans as sources of retirement income cannot be forecast in today's changing legislative environment.

More current retirees undoubtedly have savings than retirees had in 1935 when the nation was in the midst of the Depression. According to the New Beneficiary Survey, some form of asset income was received by 84 percent of all married men and their wives and 69 percent of unmarried individuals in 1982. Interest on savings accounts was the most common source of income. Couples received a median annual asset income of $2,160, while unmarried men and women received a median sum of $1,888 a year.

Many retirees hold checking and savings accounts, but few have other types of financial assets. According to the 1983 Survey of Consumer Finances, financial assets of significant value, which could supplement other sources of retirement income, are held by far less than half of all elderly families.[37] Certificates of deposit are held by 37 percent of the elderly; money market accounts are held by 18 percent of the elderly; stocks are held by 21 percent. Home equity is the most valuable asset held by most families 65 years of age and older, valued at a median of $42,000 in 1983. Although savings may not provide the type of supplement to retirement income that many hope to see in the future, home ownership represents an asset of considerable value to many elderly families in the 1980s.

◆ Conclusions

The retirement income system in this country has changed substantially since Social Security benefits were first paid in 1940. The realignments that have taken place are essentially those envisaged when the Social Security program started. Welfare no longer represents a source of income for over one-fifth of the elderly population. Most elderly can enjoy retirement rather than continued work. Not only does Social Security provide benefits to tens of millions of retired workers, their survivors and dependents, but employer-sponsored pensions provide realistic supplements to these benefits, particularly to middle-income individuals. The result of this system is that the income of the elderly is no longer at odds with that of the rest of the population.

The task for tomorrow is to ensure that the benefits of the system are not lost as changing conditions require continued adjustments. The increase in the Social Security retirement age will eventually require changes in incentives provided by employer-sponsored plans. More older Americans may be in the work force in the year 2000 because of the 1983 Social Security Amendments and a greater market demand for older workers. Yet, increased labor force participation cannot be expected from those with health problems. In 1982, 18 percent of new beneficiaries reported that they could not work at all and another 14 percent reported that they could only work part-time or occasionally.[38]

Another challenge comes in the area of incentives for individual savings. IRAs are a popular alternative for many as a means to increase retirement income without reliance on federal expenditures. Yet, unless more employees can be enticed to establish IRAs, retirement benefits will only accrue to that 17 percent of the work force who currently make contributions. Furthermore, if employer-sponsored pensions fail to receive additional encouragement from the federal government, pension plans are unlikely to extend to employees in small firms where coverage is scarce.

The first 50 years of Social Security have produced clear trends in the shape of the retirement income system through legislative change and economic incentives. The next half century will bring new challenges for society to continue to maintain its concern for the elderly who productively contributed to the nation over their working lives.

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[35] See "Individual Retirement Accounts: Characteristics and Policy Implications," *EBRI Issue Brief* 32 (July 1984), p. 7.

[36] See Andrews.

[37] See Avery et al., pp. 679-692.

[38] See Michael Packard, U.S. Social Security Administration, "Health Status of New Retired-Worker Beneficiaries: Findings from the New Beneficiary Survey" in *The 1982 New Beneficiary Survey: No. 3, Health Status of New Retired-Worker Beneficiaries* (Washington, DC: U.S. Government Printing Office, 1982), Table 2, p. 7.

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